

HOUSE BILL REPORT

HB 2405

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to the compensation paid by an insurer to an insurance broker.

Brief Description: Regulating the compensation paid by an insurer to an insurance broker.

Sponsors: Representatives Kirby and Roach; by request of Insurance Commissioner.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/10/06, 1/12/06 [DPS].

Brief Summary of Substitute Bill

- Allows agent/broker combinations in all lines of insurance to receive compensation from the insurer and the insured. Requires all agent/broker combinations who receive compensation from the insurer and the insured to provide disclosure to and receive consent from the insured.
- The bill expands the definition of insurer to include health care service contractors and health maintenance organizations. The bill expands the definition of insured to include policyholders.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Kirby, Chair; Ericks, Vice Chair; Roach, Ranking Minority Member; Tom, Assistant Ranking Minority Member; Newhouse, O'Brien, Santos, Serben, Simpson, Strow and Williams.

Staff: Jon Hedegard (786-7127).

Background:

Insurance agents represent an insurance company in a transaction to buy insurance. Insurance brokers are paid by the insured to represent the insured. Under current law, an insurance agent may also be an insurance broker ("agent/broker"). If the agent/broker is selling property casualty insurance, the agent/broker may receive:

- a commission paid by the insurer;
- a fee paid by the insured; or

- a combination of a commission and a fee (the fee may be offset or be partly or fully reimbursed to the insured).

If the compensation received by the agent/broker includes a fee paid by the insured, the agent/broker must:

- disclose in writing the full amount of the compensation;
- the written disclosure must be signed by the insured; and
- the agent/broker, and the written disclosure must be retained by agent/broker for a minimum of five years.

Summary of Substitute Bill:

The bill expands the application of the existing compensation and disclosure provisions of the law to agent/broker from only property casualty insurance to all lines of insurance.

Substitute Bill Compared to Original Bill:

The bill expands the definition of insurer to include health care service contractors and health maintenance organizations. The bill expands the definition of insured to include policyholders.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: In New York, their Attorney General's investigation discovered considerable fraud and corruption in the broker community. An investigation by the Office of the Insurance Commissioner (OIC) of the top 10 brokerages in Washington did not turn up evidence of criminality. The OIC did find that the current laws regarding payments by insurers and insureds and the disclosure of those payments apply only to property and casualty brokers. The law is a good law but it should be extended to life and health brokers also. The OIC will continue its educational efforts related to this subject. The Washington law is strong and modern. Washington agents and brokers comply with the law and Washington has not seen the problems other areas have experienced. Life and health brokers do not object to being held to the same standard as property and casualty brokers.

Testimony Against: None.

Persons Testifying: Mary Clogston OIC; and Mel Sorensen, American Council of Life Insurers Assoc., and Property Casualty Insurers Assoc.

Persons Signed In To Testify But Not Testifying: None.